Blackstone Third-Quarter 2024 Investor Call
October 17, 2024 at 9:00am ET

Weston Tucker: Good morning and welcome to Blackstone's third-quarter conference call. Joining today are: Steve Schwarzman, Chairman and CEO; Jon Gray, President and Chief Operating Officer; and Michael Chae, Chief Financial Officer. Earlier this morning, we issued a press release and slide presentation, which are available on our website. We expect to file our 10-Q report in a few weeks.

I'd like to remind you that today's call may include forward-looking statements which are uncertain and may differ from actual results materially. We do not undertake any duty to update these statements. And for a discussion of some of the factors that could affect results, please see the "Risk Factors" section of our 10-K. We'll also refer to non-GAAP measures and you'll find reconciliations in the press release on the shareholders page of our website.

Also please note that: nothing on this call constitutes an offer to sell, or a solicitation of an offer to purchase, an interest in any Blackstone fund. This audio-cast is copyrighted material of Blackstone and may not be duplicated without consent.

On results: We reported GAAP net income for the quarter of $1.6 billion. Distributable earnings were $1.3 billion, or $1.01 per common share, and we declared a dividend of $0.86 per share, which will be paid to holders of record as of October 28th.

With that, I'll turn the call over to Steve.

Steve Schwarzman: Thank you, Weston. And good morning and thank you for joining our call.

Blackstone reported strong third-quarter results, including distributable earnings of $1.3 billion as Weston mentioned, and the highest fee related earnings in two years. Since the Fed began its interest rate tightening cycle in 2022, we have spent considerable time on our earnings calls discussing how we see the macro environment unfolding. This included sharing our view on inflation when we saw it moderating more quickly than many other market participants, which paved the way for the Fed to begin cutting interest rates last month. We also stated our belief that an easing of the cost of capital would be very positive for Blackstone's asset values and would be a catalyst for transaction activity – including deployment and ultimately realizations, which in turn fuel fund-raising. This is the virtuous cycle that powers our business.

We believe we're now advancing toward the stage of the cycle that is always the most fun. In anticipation of improving markets, we substantially increased our investment pace starting in the fourth quarter of 2023 close to a year ago, which coincided with the peak in the 10-year Treasury yield. Since then, over the last twelve months, Blackstone has deployed $123 billion – representing one of the most active periods in our history and double the prior-year comparable period. We've been planting the seeds of future value at what we believe is a favorable time. And in terms of future harvesting, the third quarter marked the highest amount of overall fund appreciation in three years.

Stepping back, this is a time of profound transformation across the economy and markets, as well as geopolitically. Today more than ever, we believe Blackstone is the partner of choice to help investors navigate a complex world. Our scale and reputation provide the foundation for a deep engagement and ongoing dialogue with our limited partners. As the reference firm in our industry, we have a distinctive ability to convene the key decision-makers from our LPs to discuss what's happening around the world. The insights we draw from our expansive platform and portfolio are highly valuable to them. Most recently, we've been engaging with our clients on a number of important areas, including: the revolution underway in artificial intelligence; the build-out of digital and energy infrastructure needed to support AI; the renewable energy transition; the rise of private credit; the development of the secondaries market for alternatives; the extraordinary advancements in drug development in the life sciences area; the emergence of India as one of the most important major economies; and the cyclical recovery in commercial real estate.

I will spend a moment discussing two of these areas in more detail – the platforms we are building in support of artificial intelligence, and the recovery in real estate. First, with respect to AI – on previous calls, we've provided updates on our data center investments. Today, Blackstone is the largest data center provider in the world with holdings across the U.S., Europe, India and Japan. Last month, we announced another major expansion by agreeing to acquire AirTrunk, the largest data center operator in the Asia-Pacific region, for $16 billion. We were uniquely positioned to execute on this investment given our deep expertise in the sector, the scale of our capital, the global integration of our teams and our connectivity to the world's largest data center customers. Our ability to serve these customers represents a powerful illustration of how Blackstone has become a trusted solutions provider on a massive, global scale to many of the largest and most valuable companies in the world.

The Blackstone portfolio consists of $70 billion of data centers and over $100 billion in prospective pipeline development, including AirTrunk and facilities under construction. We conceptualized this new business area, built conviction and, in only three years, scaled it to the largest platform in the world. And there is much more we are doing, and plan to do, in this area, including addressing the sector's growing power needs, which we believe will create enormous additional opportunities for investment over time.

Turning to the recovery in commercial real estate. With the cost of capital moving lower, we've previously discussed our expectation of a new cycle of increasing values and improving investor sentiment toward the sector. One indication of this shift now underway is the renewed interest in the asset class from limited partners and financial advisors. Notably, for BREIT, repurchase requests in September were down over 90% from their peak, and we're seeing encouraging signs in terms of new sales. BREIT is clearly moving toward positive net flows, based on current trends. The vehicle's largest share class has outperformed the public REIT index by approximately 50% annually since its inception nearly eight years ago. We believe BREIT's standing as the largest vehicle of its kind by far, with strong investment performance and exceptional portfolio construction – including nearly 90% concentrated in warehouses, rental housing and data centers – positions the vehicle extremely well in the context of improving flows into private real estate. Historically, in multi-year recovery periods following a downturn, private real estate has delivered approximately double the returns of all other periods. As the largest owner of commercial real estate, this dynamic should be quite positive for Blackstone and our investors.

Overall, our limited partners have benefitted significantly from the exceptional balance of the firm and the careful way we've positioned their capital in a volatile world. Looking forward, our business is accelerating, and we are in the early days of penetrating markets of enormous size and potential. We have established leading platforms in what we view as the most compelling, high-growth areas. The alternatives industry still represents a small portion of investable assets globally, and I believe Blackstone is the best positioned firm in the world to capitalize on its long-term growth trajectory.

In closing – We have navigated many cycles since our founding in 1985. While each has presented challenges, they have also created opportunities to invest, expand market share in existing product lines, and to innovate and launch altogether new businesses. Blackstone has emerged from every cycle even stronger than before, with our firm moving on to extraordinary new heights. I fully expect the most recent cycle will lead to the same result.

With that – I'll turn it over to Jon.

Jon Gray: Thank you, Steve, good morning, everyone.

Over the past several quarters, we've been advancing along the path we outlined for investors, as we emerge from the high-cost-of-capital environment. We are pleased to see our business progressing on this path, especially the strong investment performance, with broad-based acceleration across the firm.

First, we said we would deploy significant capital ahead of the "all-clear" sign, as we believe some of the best investments are made during times of uncertainty. In Q3, for the second consecutive quarter, we invested or committed over $50 billion – the highest in more than two years. New commitments were concentrated in some of our favorite thematic neighborhoods, including digital infrastructure, renewable energy and power solutions and enterprise software. Our largest commitment in the quarter was AirTrunk, as Steve noted, across multiple Blackstone funds. In private equity, we agreed to acquire work management software company Smartsheet for $8.4 billion, representing one of the largest take-privates of the year. And our credit business had its second busiest deployment quarter in history, investing over $18 billion – up more than 50% from Q2 – driven by significant activity in global direct lending as well as our infrastructure and asset based credit strategies.

Turning to the second key development we've been highlighting – the recovery underway in commercial real estate. In January, we made the call that values in the sector were bottoming. This informed our decision to invest or commit $22 billion in real estate in the first nine months of the year – nearly two-and-a-half times the same period last year. Our $30 billion global flagship fund is now nearly 40% committed. Green Street's index of private real estate values has increased each quarter since, while the public real estate market has rallied sharply. Liquidity in the private market is also improving meaningfully, providing the foundation for greater transaction activity. At the same time, new construction starts are falling dramatically for most types of real estate, including declines of approximately 40%-75% from recent peak levels in logistics and U.S. apartment buildings – our two largest sectors in real estate. While the recovery will play out over time, the combination of lower base rates, lower borrowing spreads and lower new supply makes the direction of travel quite positive for our real estate business.

The third key development we've been speaking about regularly is the secular rise of private credit, and the integrated platform we've been building to offer clients and borrowers a one-stop solution across the full spectrum of credit strategies. Today we manage the largest third-party private credit business in the world, with $432 billion across corporate and real estate credit – up a remarkable 20% year over year. We have one of the largest, if not the largest, businesses in direct lending, CLOs, real estate debt and private investment-grade credit. Total inflows across the combined platform were over $100 billion in the last twelve months.

In our non-investment grade strategies, even as base rates move lower, there continues to be significant opportunity to generate excess returns for clients relative to liquid markets. Meanwhile, we expect lower base rates will be supportive of transaction activity and deployment. Importantly, private credit markets are expanding rapidly beyond financing M&A, and we're seeing a dramatic increase in demand for all forms of investment grade private credit, including from many of the largest insurance companies and institutions in the world. Our "farm-to-table" approach, which brings investors directly to borrowers, results in a strong value proposition for clients. In the insurance channel, our business has grown to $221 billion, up 24% year over year, including four strategic relationships and 20 additional SMA clients. We placed or originated a record $38 billion of A-rated credits on average year-to-date for our private IG-focused clients – up nearly 70% – which generated approximately 185 basis points of excess spread versus comparably rated liquid credits.

Overall, Blackstone's scale and reach create extraordinary connectivity with borrowers across the market, resulting in more opportunities to originate high-quality private credit investments. Our equity and debt strategies operate in multi-trillion-dollar markets that generate enormous flow of IG debt, often where Blackstone is the leading player – including data centers, energy infrastructure and real estate. In the energy area, we estimate we were a lead financing provider for nearly 15% of all renewable projects in the U.S. in the last twelve months. We've also established contractual relationships and forward flow agreements with banks and other originators across a wide range of areas, including credit card receivables, home improvement, fund finance and equipment finance. We are building a third-party performing credit juggernaut, and we expect our business to grow significantly from here.

The fourth key development we've been talking about is our momentum in private wealth. Following a challenging two-year period for markets, we've seen a robust re-acceleration of sales in 2024. We raised $21 billion in the channel year-to-date through September – nearly double what we raised from individuals in the same period last year – including $18 billion for the perpetual vehicles. BCRED led the way with over $9 billion raised in the first nine months of 2024, including $3 billion in the third quarter. BXPE is approaching $6 billion only nine months after launch. And for BREIT, flows are trending favorably, as Steve discussed. We're also in the process of launching two more private wealth perpetual vehicles, in credit and infrastructure, as we noted previously. With the track record of our products, the depth of our relationships with financial advisors and their clients, and the strength of the Blackstone brand, we are more confident about our prospects in this channel than ever.

In addition to private wealth, momentum is building in our drawdown fund area, with a number of exciting new initiatives in front of us. The receptivity from our limited partners feels more positive today than in the past several years. We will soon complete fund-raising for a number of our flagship vehicles, including corporate private equity, private equity energy transition, European real estate and real estate debt. In credit, we recently launched fund-raising for the successor to our $9 billion opportunistic strategy, with initial closings of $2.4 billion. And in our equity-oriented business, we've launched, or will soon launch, fund-raising for the next vintages of three highly successful strategies – our $22 billion private equity secondaries strategy, $6 billion private equity Asia strategy and $5 billion life sciences strategy. We expect the successors to be at least as large as, or larger than, the current vintages. Also worth noting, as of this week, we've closed on €1 billion for our new open-ended, Europe-focused infrastructure vehicle – a very promising development.

Finally, alongside these multiple positive developments unfolding in our business – something that is not changing is our commitment to our capital-light, brand-heavy, open architecture model. We rely on our track record, our people and the power of our brand to grow. The firm's balance sheet investments comprise less than 1% of AUM, we have virtually no net debt, no insurance liabilities and a share count that is almost unchanged over the past seven years, despite the extraordinary growth we've achieved. We've done that while also returning 100% of earnings to shareholders over this period through dividends and share repurchases, totaling over $30 billion.

In closing – the firm is in terrific shape by any measure. We have powerful tailwinds at our back and the virtuous cycle underpinning our business is accelerating.

With that, I'll turn things over to Michael Chae.

Michael Chae: Thanks Jon, and good morning everyone.

The firm delivered strong results in the third quarter, and as we've highlighted previously, we are moving toward a meaningful step-up in the firm's earnings power. I will first review financial results and will then discuss investment performance and the outlook.

Starting with results. The firm's extraordinary breadth continues to power AUM to new record levels. Total AUM increased 10% year over year to $1.1 trillion, with inflows of $41 billion in the third quarter and $167 billion over the last twelve months. Fee-earning inflows were $161 billion for the LTM period, lifting fee earning AUM by 12% to $820 billion. We activated the investment periods for our corporate private equity and PE energy transition flagships in the second quarter, and our infrastructure secondaries strategy in the third quarter – representing $26 billion of fee AUM in aggregate. These vehicles were in their respective fee holidays for most, or all, of Q3, depending on the strategy. Notwithstanding the temporary impact from these fee holidays, management fees in the third quarter increased 8% year over year to a record $1.8 billion – and the forward outlook is quite positive, which I'll discuss in a moment.

Fee related earnings were $1.2 billion in the third quarter, or $0.96 per share, up 5% year over year, underpinned by the growth in management fees. The firm also generated $264 million of fee related performance revenues in the third quarter. These revenues included $186 million in the credit and insurance segment – up 27% year over year – reflective of the steadily growing contribution from our direct lending business; along with a contribution from a co-investment vehicle in the BPP platform.

Distributable earnings were $1.3 billion in the third quarter, or $1.01 per common share – up 7% on a per-share basis. Net realizations were $226 million in the quarter, primarily generated by the sale of public stock of an India-based retail REIT and certain energy positions, along with proceeds from other public and private holdings. Overall disposition activity has remained more limited in the current environment, characterized by a nearly three-year period of lower activity levels in the broader capital markets. However, we are optimistic about a meaningfully more constructive environment for realizations in 2025.

Moving to investment performance. Our funds generated the highest overall dollar appreciation in three years in the third quarter, highlighted by corporate private equity and infrastructure. The corporate PE funds appreciated 6.2% in the quarter and 15% over the last twelve months. Our operating companies overall reported stable, mid-single-digit year over year revenue growth in the quarter along with continued notable margin strength. Infrastructure reported 5.5% appreciation in the third quarter and 18% for the LTM period, with significant gains across digital, transportation and energy infrastructure. Our data center platform was again the single largest driver of appreciation in our infrastructure and real estate businesses, and for the firm overall in the third quarter. The commingled BIP strategy has generated 16% net returns annually since inception, powering continued robust growth, with total BIP platform AUM increasing 32% year over year to $53 billion.

Our credit business also reported another strong quarter against a healthy backdrop for private debt markets. The non-investment grade private credit strategies generated a gross return of 3.6% in the quarter and 17% for the LTM period. The default rate across our 2,000-plus non-investment grade credits was less than 50 basis points for the last twelve months. Our multi-asset investing platform, BXMA, reported a 2.2% gross return for the absolute return composite – the 18th consecutive quarter of positive performance – and 12% for the last twelve months.

In real estate, values were stable overall in the third quarter, supported by strength in data centers, rental housing and global logistics; offset primarily by a decline in the unrealized value of our interest rate hedges as Treasury yields fell in the quarter. These hedges, which locked in low-cost fixed-rate financing ahead of the rise in interest rates, had the effect of reducing appreciation in the third quarter by approximately 50 basis points for the opportunistic funds and 200 basis points for the core-plus funds. Within core-plus, BREIT's Class I net return was flat in the third quarter, but positive 2.3% excluding the effect of its interest rate hedge.

Finally, outside of the firm's major reported business lines, we have a number of strategies in various stages of development that have been generating outstanding results. I'll highlight two of them. Our GP stakes platform appreciated 12.6% in Q3 and 31% over the last twelve months, reflecting the attractiveness of investing in high-quality alternative managers. And our life sciences funds appreciated 5.9% in the third quarter and 28% for the LTM period, benefiting from key milestones achieved for multiple treatments under development, including medicines for the prevention of heart failure and arrhythmia, along with a vaccine for pneumonia.

The firm's investment performance lifted net accrued performance revenue on the balance sheet up 13% sequentially from Q2 to $7 billion, or $5.72 per share – the highest level in two years. Meanwhile, performance revenue eligible AUM in the ground increased to a record $553 billion. These are strong indicators of future realization potential.

Turning to the outlook. We anticipate a material step-up in FRE in the fourth quarter, driven by several factors. These include the onset of full management fees from multiple funds exiting fee holidays. We also expect robust growth in fee related performance revenues – in particular, from a scheduled crystallization event for the commingled BIP infrastructure strategy, comprising the substantial portion of the strategy's associated net fee related performance revenue accrual on the balance sheet. We do expect a sequentially lower FRE margin in Q4 compared to Q3, related to the infrastructure crystallization and other seasonal expense factors; but for the full year 2024, as we noted last quarter, we continue to expect margin to be within a reasonable range of 2023.

In closing, looking forward to 2025 and beyond, we have powerful momentum across the firm, and the outlook for Blackstone is very positive.

With that, we thank you for joining the call and would like to open it up now for questions.

Moderator: Thank you. As a reminder, please press star one to ask a question. We ask that you limit yourself to one question to allow for as many callers to participate as possible. We'll go first to Michael Cyprus with Morgan Stanley.

Michael Cyprus: Hey, good morning. Thanks for taking the question. Maybe just on insurance, the platform continues to grow nicely there. So I was hoping you could maybe comment on the opportunity on both fronts – on the strategic partnership side, with the existing partners, how you are helping them grow? How are the conversations progressing for new potential relationships? And then on the regular way, third-party side, I think you mentioned 20 or so separate accounts. If you could help size that part of the business today, and how you envision that continuing to grow from here. Thank you.

Jon Gray: Thank you, Mike. So the overall insurance business, as we noted, $221 billion, up 24% year on year. We do have these four strategic relationships, 20 SMAs. I would say the dialogue with insurance companies is exceptionally strong. On the strategic side, those take time. You need to find a party who's interested in doing something broader. We continue to have dialogues. It's hard to predict when and how those will happen. On the SMA side, we're just seeing more insurance companies recognizing the benefit of investment-grade private credit, particularly in the asset based space. As you know, they've always done commercial real estate on a private basis. Some have done private placements. But the movement into this $25 trillion asset based arena feels like it's in its very early days. And we have been meeting with CIOs on a regular basis. Gilles Dellaert, who runs our credit and insurance business, came from this area in his past, has terrific relationships, and we're continuing to build out our capabilities. I would just say the tenor of the conversations is very open. And it starts with one $500 million commitment. We fill that up. It can grow over time. You add to that the strategic relationships where we've got contractual flows coming in and hopefully some new partners over time. It's hard to put a number on it, but it feels like to us this should continue to grow at a very high rate for the foreseeable future. Because when you look at the insurance companies, their allocations are still pretty small to the area and the 185 basis points of excess return for A-rated paper is very valuable to them. And so I would say the optimism around this space for us is very high. And then of course, the open architecture model is helpful. We're not in the market selling annuities. We are a third-party investment manager, and that definitely helps the conversations and helps our momentum here.

Michael Cyprus: Great. Thank you.

Moderator: We'll take our next question from Mike Brown with Wells Fargo Securities.

Mike Brown: Hi, good morning. Michael, if you could expand on the increase in the operating expenses this quarter, how much is driven by placement fees and where could that go? And then, if we think about the embedded FRE growth through 2025, how should we think about how that operating leverage could drive margin expansion next year? Could it be north of, call it the 100 basis points that you've kind of historically delivered over the years? Thank you.

Michael Chae: Sure. Thanks, Mike. Good morning. On the operating expense growth, it was a few items of note, a mix of a few different elements. First, there is a third-party servicer fee relating to our signature debt portfolio acquisition. Second, as you noted, placement fees, primarily related to BXPE. And then there's some initiative-driven consulting spend and some other items. These are obviously all associated with very compelling growth areas, but they did add to OpEx. And I'd say adjusting for these items, the underlying growth in OpEx is running fairly close to last year, which was very low double-digits. And I would say for Q4, we would expect a lower rate of growth year over year than what you're seeing in Q3. So that's, I would say, the overall outlook on that and some of the background. In terms of 2025, margins, as you know, it's early on that. We don't like to get too granular, especially this early. I would just say that given the overall drivers of both the topline and our expense structure, we continue to feel very good about the idea of stability as a starting point in the short-term, and then upside from there and over the long-term continued operating leverage.

Operator: Thank you. We'll go next to Glenn Schorr with Evercore.

Glenn Schorr: Hi, thanks. Big picture and Blackstone-specific question on the asset backed world. So I wonder if you could size the asset backed opportunity in your mind in terms of maybe put in relative terms to what we've seen in the direct lending market, just multiples bigger? In the range of the same size? Something like that. And then for you specifically, you talked about the different pieces of your juggernaut. I'm curious if you think relative to that backdrop that we could be looking at in terms of share ship from the banks, do you think you've done enough to get your fair share in terms of bank partnerships and owning or third-party origination, piecing it together for that juggernaut? Thanks.

Jon Gray: Thanks, Glenn. So I would say to size it up, if you look at the leveraged finance world, it's roughly a $5 trillion universe today. About a third of that is in high yield, a third of that is in leveraged lending, and a third of that is in direct lending. And it certainly feels like direct lending will continue to get more share because of the certainty we can deliver to borrowers and that farm-to-table approach. But that's that universe, and we have a $120 billion platform in that space. If you compare that to the asset based world, including commercial real estate, residential real estate, transportation, digital infrastructure, energy, fund finance, that whole world, we estimate that at $25 trillion. And whereas private players have a third of the leveraged finance world, which is a much smaller world we just described, of that $25 trillion, I think private players today are 1%, 2% of that. So the multiple in terms of scale is much larger and the penetration is much lower. And that's the reason why you heard that enthusiasm from me on the insurance side, because these clients see the opportunity. And I think over time, it's going to move beyond insurance. We're having good dialogue with pension clients. I think we'll see sovereign wealth funds start to do this as well. It's probably less of an individual investor market. But I think almost all institutions will look at this premium they can get for making asset based loans and at the same or lower risk and will choose to do some of this. And that means that number can grow a lot. And as we get scale, we can speak for, whole transactions, $1 billion, $2 billion, $3 billion, put it amongst our 20 different clients today and that creates a really good cycle for us. So I'd say overall, I think this market can grow a lot. I would expect our numbers here to grow a lot. On the bank partnership front, what I would say is we can have a bias for do-it-yourself. But there are areas where partnerships make sense. So for us, direct lending, where we have so much scale, wouldn't make a lot of sense. But definitely in certain origination areas, and we've done partnerships in terms of home improvement loans, we've done some in fund finance with some banks. We've done a number of things with originators in certain verticals. I think we'll continue to do more of those. We haven't done as many announcements. But we have a lot of oars in the water in terms of origination. I think our origination volume in investment grade private was up 40% year on year. So this is an area where we have a lot of momentum. The other thing that I think is important to remember is our scale as an equity investor. Massive scale in digital infrastructure, in real estate and energy. The relationships we have there, that deal flow is very helpful to our credit business as well. So we feel good about what we're doing. Will we find some more partnership in specific areas? Yes. Will we continue to build out our own origination capabilities? Yes. We still think there's a long way to go.

Moderator: Thank you. We'll go next to Craig Siegenthaler with Bank of America.

Craig Siegenthaler: Good morning, Steve, Jon, Michael. Hope everyone's doing well. We have a big picture question on the investing pipeline, and we heard a lot of positive commentary in the prepared remarks, but it looks like '25 will be a lot stronger overall, so we wanted your perspective on two key points. One, how much is the November election delaying investment decisions into next year? And two, is the backdrop broadly more favorable in real estate or private equity, given the declining setup in both discount rates and cap rates?

Jon Gray: So I would say on the election, we haven't really seen a slowdown. I mean, I do think there are some folks who are waiting to launch to get through the election. So maybe, sellers or IPOs have been a little bit delayed, either later into the fourth quarter or first quarter. So, I haven't seen people pulling back from buying, but it's probably delayed a few sales processes, and that should be a good sign for deal activity. In terms of relative pickup in activity, percentage-wise, probably real estate, because it was coming off such a low base. And we've now seen borrowing spreads and borrowing costs come down a ton. But I think in both areas, you're going to see a pickup in activity. You have all the conditions, sort of the recipe for more transaction activity. Base rates, both at the long and short end, have come down. I think they'll come down further on the short end as the Fed eases. Spreads have tightened a bunch. I mean, we were looking, high yield today between spread and base rates down 300 basis points. In some cases in real estate, down 400 basis points, really meaningful movement. And that is obviously very helpful for transaction activity. A strong equity market, of course, helps things in people's confidence. And then I would say investors, of course, their sentiment is improving as well. So I think we've been a little ahead of the curve in our investing before the all-clear sign. Steve talked about the $120 billion we've invested, but it feels like things are picking up. And, anecdotally, I was talking with the private equity guys the last day or so, and the number of nondisclosure agreements, confidentiality agreements, is up two and a half fold in September versus where it was a year ago. Now, that doesn't necessarily mean it's going to turn into that volume of deals, but it clearly shows you there is more enthusiasm. And we know in the private equity world, there's a lot of companies that need to be sold. Similar story in real estate. So, it feels like there's a lot of pent-up demand for realizations, for DPI, and I think we'll see that in 2025.

Moderator: Thank you. We'll go next to Alex Blostein with Goldman Sachs.

Alex Blostein: Hey, Jon. Good morning, everybody. Just maybe piggybacking on that a little bit and zoning in on real estate a little more specifically, it's obviously very encouraging, conditions improving. Can you talk a little bit about your outlook over the next 12 to 18 months in terms of Blackstone being a net buyer or a net seller of real estate assets, and maybe a little bit on which asset classes in particular you expect to be more active in on both sides of that equation?

Jon Gray: Well, we definitely have been a net buyer here the last nine months, and we do think that the sentiment is improving, but it's still negative, and people look at the headlines, sort of the wreckage from the past, and that concerns them, and they're waiting to see, hey, is it safe to go back in? We tend to be in the seed-planting mode for that. But at the same time, as we look into next year, as the public REITs rally, as debt becomes more available at lower costs, we're seeing more people show up. So we've seen, call it 2x to 3x the number of buyers showing up to buy things like apartments and logistics. So, I think the balance this year has been very heavy towards the investing relative to the harvesting. I think that'll start to balance out, still probably more investing earlier on as we work through the year. I would then expect to see more realizations. In terms of sectors we like, we continue to be heavily leaning towards areas like logistics where the global trends long-term, particularly as we get through the supply bubble, we think will look very good. Rental housing, there's a shortage of housing around the globe, particularly in developed markets. Data centers, we've talked about at length, has been a huge theme for us in real estate. It's really powered a number of our vehicles. And so, I think we will find interesting places to deploy capital. And it's possible in office on a selective basis that you could find some interesting things, particularly higher-quality buildings, and even retail around the grocery-anchored space as opposed to the enclosed malls. So, I think we're in the middle of a broad-based recovery in real estate. We're trying to capture that as much as possible, U.S., Europe, and Asia deploying capital. As we work through the cycle and values recover, you'll see a pickup in sales, and you can feel that happening now.

Moderator: Thank you. We'll go next to Dan Fannon with Jefferies.

Dan Fannon: Thanks. Good morning. Several funds came off fee holiday in the third quarter. Can you repeat the size of that AUM? And then also, just given the elevated levels of deployment that have been going on and seem to be continuing, can you talk about what that means for some of the larger funds or fund-raising into 2025?

Michael Chae: Sure. On the fee holiday side, I mentioned sort of the main items, our new private equity corporate fund, global fund, BCP IX, our fourth energy transition fund and then our SP infrastructure fund. Those were in partial or full holiday in the third quarter. They'll all be in full fees in the fourth quarter. Just to quantify, sort of based on the fee holidays, foregone fees from just those three funds of around $40 million or so. So that maybe will help you with the math.

Jon Gray: I want to talk about, I mean, look, as it relates to the pipeline, what I would say is institutional investors are certainly feeling better. The quality of the dialogue is getting better. As equity markets have rallied, denominator effect looks a lot better today. I think the key thing will be DPI is picking up as we move into next year, as the IPO market gets better, as we have more sales, that's that virtuous cycle of capital moving back to them and them allocating more. I would expect that, we talked about in the remarks, some of the things that are working their way through the system – our next private equity Asia fund, our next life science fund, at some point next year, our next large private equity secondaries business; we've got the opportunistic credit business, and then we're continuing to clean up or finalize a number of these funds in energy transition, real estate credit, real estate Europe. So, it feels like we're going to be in a better fund-raising environment. As everybody knows here, the last two and a half years have not been easy. Remarkably, as a firm, the last 12 months, we raised $167 billion in a tougher period of time. It feels like it's going to be a better environment, but certainly more realizations working their way through the system will free up capacity from our big customers.

Moderator: We'll go next to Brian Bedell with Deutsche Bank.

Brian Bedell: Great. Thanks. Good morning. Thanks for taking my question. Maybe just to move back to the AI and the data center theme and just trying to connect the deployment opportunities, which obviously you described as pretty massive in this space, just connecting that, trying to connect that with the supply of investment capital from fundraising. So, as you see that deployment come through, to what extent do you think the fundraising can't keep up? Or to what extent will this theme accelerate fundraising, let's say, over the next two years? Maybe just one example there would be the BREP fund is 40% committed. I know data centers are a part of that. Could it be coming back to market even by the end of 2025 for the next vintage of that or is that too early?

Jon Gray: Well, it's an important question. What I would say on data centers is the fact that we have large-scale pools of capital that we've been able to deploy has been a huge competitive advantage. So, the ability to privatize QTS, a $10 billion company at the time, which we've since grown eightfold in lease capacity, we did that jointly with infrastructure and various BREIT and BPP and real estate. The AirTrunk transaction, we just did a $16 billion deal. We were able, I think, to be in a very favorable, competitive dynamic because we did it really on our own with one institutional partner. And in that case, we had infrastructure, opportunistic real estate, Asia, global, our tactical opportunities area, our strategy for individual investors in private equity. We were able to bring all this capital together. And that's enabled us to do this at scale because it does require a lot of capital to both buy these companies and then have the firepower to build these out. And so, I do think it is a meaningful area of deployment. Will it lead to an acceleration of fundraising in real estate, let's say, opportunistic globally? I think it's too early to say. But it certainly has helped us. It's helped us in performance. It's been the lead driver in our infrastructure business. Michael talked about the 16% net since inception. The biggest driver of that has been data centers. And it feels like we've got more momentum ahead for us in the U.S., Europe and Asia. So it's one of the most exciting areas. And I would say just more broadly, we're playing this sort of need for compute power, AI and electrification on a broad base. And so it's clearly the data centers, but it's also the energy and power. And in that area, again, having infrastructure, having our energy credit funds, having our energy equity funds, that consortium, and even some of this that's gone into real estate and then what we're doing in credit, that's another area. So when you think about where alternative firms are positioned, particularly our firm, there's a huge need for capital in a few of these areas. And we have what we think are the right vehicles to invest in it. I think it will lead to faster deployment and it should lead to higher returns as well. And that gives us a bunch of optimism.

Brian Bedell: Great. Thank you very much.

Moderator: We'll take our next question from Brennan Hawken with UBS.

Brennan Hawken: Great. Good morning. Thanks for taking my questions. So rates declining, you spoke to that helping out many of your businesses. But I was curious to hear, how to think about the impact of lower base rates and tighter spreads on the credit business. And, maybe specifically, how should we think about the rate sensitivity of FRPR within credit?

Jon Gray: So what I'd say on credit, certainly we've generated very favorable returns for customers, nearly 17% in private investment grade appreciation over the last year. And some of that, of course, goes away as base rate comes down and spreads come down. But the real question, I think, for investors is, can they earn a premium to liquid fixed income? And when you look at liquid fixed income, where corporate BBBs are paying a little over 100 over, I think we can produce a durable premium. I think we can do it certainly in non-investment grade. If you look at our BCRED product, it's delivered 700 basis points over base rate since inception. So even as base rates come down, a very attractive return. And when you look in the investment grade space, as we talked about earlier, the idea that we can deliver 185 basis points over comparable single A-rated credit is also very encouraging. So yes, there will be some pressure on absolute returns as spreads and base rates come down, but relative returns, that durable premium, I think, will continue. And that's the reason why I think we'll continue to see investors migrate towards private credit, both investment grade and non-investment grade.

Michael Chae: And Brennan, I'd just add on to your question on impact, on fee related performance revenues. I would actually, in isolation, talk about what's the effect of a decline in yields or in investment income. Not necessarily base rates for reasons I'll mention, but let's call it a 50 basis points decline in yields or in investment income equates to pretty minimal impact, something like in the low mid-single digits, around 3% or 4% on sort of run rate, fee related performance revenues. That's sort of the math, which you could probably derive yourself. But importantly, there are offsets. These are under-levered vehicles. These are non-traded and traded BDCs. The cost of liabilities, even though they're lowly levered, that also moves in tandem down. And so there will be offsets, I think, in terms of just what's the impact, all else equal, of a move down in base rates. It really becomes a question of where are we on yields and investment income.

Moderator: We'll go next to Benjamin Budish with Barclays.

Benjamin Budish: Hi. Good morning, and thanks for taking the question. I wanted to maybe ask another question on the FRE outlook for next year, maybe thinking about the comp ratio in management fees versus realized performance revenues. I know in the past you've commented that you're not really looking to make a structural change like some of your peers have done. But when we look back across the last three, four, five years, it does look like the overall fee related comp ratio has come down a little bit and the opposite on the performance side. And so just digging through next year, I'm curious what your appetite is, particularly given if we do see a big pickup in performance revenues. It could be an opportune time, given it would really smooth out the total comp picture for your employees. So I appreciate any thoughts there. Thank you.

Michael Chae: Sure, Benjamin. Look, we, first of all, as you know our comp model has multiple levers, and we look at them in an integrated way and feel like we've got a fair degree of control around them, and we want to optimize across them. So you've seen some of that movement, I would say, in terms of the performance revenue comp ratios relative to fee comp ratios. And, in certain businesses, we have the ability, and from time to time, we've chosen to allocate more performance comp to certain professionals, and we manage the mix of incentives that way. You know, we haven't done it in the larger-scale programmatic way, but it's a tool in our toolkit we can use along with others. So that is really how we think about it. We have these controls. There are multiple elements to sort of our overall comp model. And I would just step back and say, as we've, I think, delivered on from a margin standpoint, from a comp ratio standpoint, we feel good about the path forward.

Benjamin Budish: Got it. Thank you very much.

Moderator: We'll go next to Steven Chubak with Wolfe Research.

Steven Chubak: Good morning.

Weston Tucker: Hi. Good morning, Steven.

Steven Chubak: How are you? Wanted to ask a question on the FRE and net flow outlook. So it's certainly encouraging to see the improved fund-raising deployment activity in the quarter.

One metric which fell short of expectations was FPAUM growth, and it has reinforced at least some of the challenges of overcoming back book headwinds, which are running at about 10% of FPAUM. Just given the strong fund-raising tailwinds you cited, was hoping you could speak to the FRE growth outlook just in the context of some of these back book pressures and how you're thinking about a sustainable, organic net flow rate, just as we refine some of our modeling assumptions for next year and beyond.

Michael Chae: Yeah, I'd just start, Steven, on sort of the overall outlook. I mean, the overall outlook, longer term, certainly looking at 20 -we talked about the fourth quarter around FRE – 2025, we don't give sort of granular guidance, and there isn't really an algorithm for it. But the building blocks that are in place for 2025 FRE growth, we are very optimistic about, between base management fees, the sort of structural embedded upward ramp, the full-year benefit of the flagship vehicles we've activated this year, which we've talked about, additional drawdown funds to be activated, new raises underway, continued expansion and broadening of our perpetual strategies, including BXPE, significant momentum in credit insurance management fees, up 18% year-to-date. On fee related performance revenues, which you touched on, the direct lending BDC is just steadily expanding earnings power. BREIT, sort of a bit of a sleeping giant in terms of this embedded incentive fee earnings power there, fee related performance revenue earnings power. And then BXPE, which I mentioned continued to scale. And then in credit & insurance, generally, year-to-date FRE has been up 26%. So, we think about the drivers, I think less in terms of equations and more around, across different building blocks and across the overall business, really good, I think near and medium term and longer term, momentum and path forward. So I would really frame it that way rather than sort of a net flow or kind of quarter to quarter, sort of the algorithm around that.

Steven Chubak: No, it's very helpful context. Thanks for taking my question.

Moderator: We'll go next to Ken Worthington with JP Morgan.

Ken Worthington: Hi, good morning. Thanks for taking the question. So lots of areas and elements in Blackstone are performing well or recovering. Secondaries continues to lag, and we witnessed IRRs in SP IX, Infra III, SP VIII, all fell this quarter by a couple of percentage points. And returns in aggregate in secondaries for 2023 and '24 are well below your hurdle rates. So, help us understand why performance here continues to lag. Is the path forward to better results just a function of time? And if that's the case, when do we see it? Or is there really like a different, bigger issue here?

Jon Gray: I would say, we feel great about our secondaries business. We today are at $82 billion of AUM. If you look in our filings here and you look at the SP funds, their net return since inception, high teens returns or higher in the flagship private equity vehicles. So we have extremely happy customers. In the near term, yes that business reports on a lag of a couple quarters. So you're seeing what were challenging reports that come in the last few quarters. There's been modest growth in terms of appreciation there, but, but I would say the overall sort of embedded discount in buying funds at attractive prices, particularly what we focus on, which is eight-year-old funds on average, and being able to show up, and we own today, I think, interest in 4,000 different funds, to give a holistic solution to sellers, do it across real estate and private equity and infrastructure and credit. I think it puts us in a really unique spot. So I would say near term, there's a little bit of a slowdown in performance, but when you look at this business, what we've done for the customers, they're very pleased with it. And I feel quite good as we go out to raise the next vintage.

Michael Chae: Yeah. Ken, it's Michael. I'd just add to that on a couple of things. One, just to reframe what Jon said or reiterate it, the investment performance has been outstanding. And I think if you did a channel check, you would hear that. I think on the recent performance, just to add to what Jon said, I think there are two factors which are kind of the key elements of the math in the short term of the secondary fund returns. One is the immediate gains from buying new deals at a discount. That volume was lower, as you know, last year and early this year. It's definitely accelerating now. That will help returns. And then in terms of the underlying performance of the funds themselves, and Jon referenced this, the nature of secondary buyers is they tend to be more mature funds. So yes, in the period of the last couple of years or so, and even more recently, the performance of some of these more mature funds across the industry, naturally, and during this recovery, lags. And so that's being sort of transmitted as well, as opposed to, say, our latest corporate equity fund with a younger portfolio, and you see the performance that it's delivered, in recent quarters. So those are really the two factors. They're structural. They also have to do with structural in the context of where we are in the cycle. And overall, SP's been through these cycles. Their investment performance delivery has been outstanding.

Ken Worthington: Great. We'll stay tuned. Thank you so much.

Weston Tucker: Thanks Ken.

Moderator: We'll go next to Bill Katz with TD Cowen.

Bill Katz: Okay. Thank you very much for the update and taking the question this morning. Maybe a big picture one on wealth management. Obviously, you have a tremendous first mover advantage and a great brand. How do you sort of see the platform evolving here, just in terms of impact of rising competition, and maybe what you're seeing in terms of investor demand as interest rate expectations shift? Thank you.

Jon Gray: Thanks, Bill. I would start with, we definitely have a first mover advantage. The $250 billion speaks to our scale and is much larger than others. It speaks to the fact that we started here earlier than others, and we built up incredible relationships with financial advisors, as well as their underlying clients. And I think that's very important. We had a bunch of them in town the last couple weeks. And the goodwill towards the firm is extraordinary, particularly because of the performance. Both of the drawdowns, and more recently, of course, because of the perpetuals, how BREIT has delivered, how BCRED has delivered, how BXPE has started. This builds up a lot of goodwill with underlying customers. I'd also point out that if you look at our institutional investors, they're now 30%, 33% allocated to privates. In the $80 trillion wealth space, they're probably allocated 1% to 2%. It is early days here. Even earlier outside of the United States. So if you said, what do we see here? We see an enormous opportunity. With our existing sort of flagship products, we talked about going into infrastructure, another version of credit. I think you'll see us put more people on the ground around the world. We think the benefits of alternatives will continue to grow. We think these semi-liquid structures, which have reporting that's more timely, in many cases, are more tax efficient. They provide semi-liquidity as well. This works for advisors and their underlying customers. So, I would say yes, there will be more competitors moving into the space, but the overall market is very, very large. I feel like given our brand, our reach, we'll get shelf space, which is different, as you know, versus let's say traditional institutional private equity, where you can have an unlimited number of participants. In this world, I think it's smaller. A smaller number of groups will be able to play. Our first mover advantage, the performance we've delivered, the brand, all of that is super helpful in this context.

And I would say one other thing I just thought about that's worth noting is as base rates come down, that makes investors' enthusiasm for these products go up. When you were earning 6% in a money market fund, there wasn't much incentive to think about other things. As the Fed brings rates back in at some point into the threes, I think the attractiveness of trading some near-term liquidity for higher returns goes up. So, I think performance improving in a better environment, these products showing how they weathered a storm, and the lack of return from short-term cash, I think all of that should grow, and we would expect as we move forward, the momentum will accelerate in private wealth.

Moderator: Thank you. We'll take our last question from Crispin Love with Piper Sandler.

Crispin Love: Thanks. Good morning. Just a big picture question here. So just from your seat, what are you seeing with regards to M&A and IPO activity and the IPO pipeline? And do you see a scenario where there are less IPOs, companies staying private longer, and what could that mean for you? Are there both positive and negative implications there for Blackstone in this type of environment? Thank you.

Jon Gray: I'm a believer that the environment's falling into place both for more IPOs and more M&A. On the M&A front, in terms of the private side, certainly debt cost to capital coming down makes a huge difference. If you looked, when we bought Emerson Electric's Copeland business, when we bought that, we were struggling to get any debt, capital cost 13%, 14%, that made doing transactions very difficult. As debt cost of capital comes down, people can borrow more, and it allows the private market to become much more robust. As stock prices go up, obviously strategic acquirers become more active in M&A. On the IPO front, that's obviously been the laggard. We had two very slow years in '22 and '23. '24, you've watched the momentum build up. And as I said on TV earlier, as the price of the public market goes up, it's like a magnet pulling private companies into the market. And so, I think you'll begin to see more. You've seen some sponsor IPOs come out that have done quite well. Overall, I think IPOs in the U.S. are up something like 30% from IPO to today. That will get people, investors, more motivated to invest into IPOs. And when we just talk about what's happening in our firm, I walked into a meeting yesterday and we were talking about a potential IPO, and we've really gone from sort of this theoretical to the practical. What's the right size? Should we do it in February or April? So my expectation is the IPO market, which is historically cyclical, will pick back up. The private market has grown. There may be companies that stay in continuation vehicles. So there will be some of that, but I think we will see a much better IPO market in 2025. And obviously for our business, realizations, DPI, that's a very good thing.

Crispin Love: Thank you, Jon. I appreciate the color.

Moderator: With no additional questions in queue, I would like to turn the call back over to Mr. Weston Tucker for any additional closing remarks.

Weston Tucker: Great, thank you everyone for joining us today., and we look forward to following up after the call. Have a great day.

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